Kraftco Corporation 1972 Annual Report

CLEVELAND PUBLIC LIBRARY
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CORPORATION FILE

Financial Highlights

	1972	1971
Sales	$3,196,789,000	$2,959,636,000
Earnings Before Extraordinary Charge	$ 100,635,000	$ 91,347,000
Per Share	$3.57	$3.25
Per Dollar of Sales	3.15%	3.09%
Earnings After Extraordinary Charge	$ 88,335,000	$ 91,347,000
Per Share	$3.13*	$3.25*
Per Dollar of Sales	2.76%	3.09%
Federal and Foreign Taxes on Income	$ 86,894,000**	$ 87,165,000
Per Share	$3.08**	$3.10
Dividends to Stockholders	$ 49,741,000	$ 47,642,000
Per Share	$1.768	$1.70
Capital Expenditures	$ 87,139,000	$ 87,356,000
Depreciation	$ 43,727,000	$ 40,733,000
Working Capital	$ 425,899,000	$ 421,319,000
Stockholders' Equity	$ 768,744,000	$ 732,391,000
Number of Stockholders	69,999	71,461

*$3.10 in 1972 and $3.21 in 1971, assuming full conversion of the 7½% Convertible Bearer Bonds.
**Before tax benefit on extraordinary charge.

Annual Meeting

The Annual Meeting of Stockholders of Kraftco Corporation will be held Thursday, April 19, 1973, at 2:00 p.m. in the Auditorium of the First National Bank Building, 165 Madison Avenue, Memphis, Tennessee.

Contents

Financial Highlights ..... Cover

Letter to Stockholders 1

1972 Financial Review 3

Consolidated Balance Sheets 6

Consolidated Statements of Income 8

Consolidated Statements of Retained Earnings 8

Consolidated Statements of Changes in Financial Position 9

Notes to Consolidated Financial Statements 10

International Subsidiaries (other than Canadian)
Statements of Income 12
Statements of Financial Position 12

Auditors' Report 13

Ten Year Summary 14

Board of Directors and Officers 16

Principal Divisions and Operations ... Inside Back Cover

To Our Stockholders:

In 1972, Kraftco's annual sales topped the $3 billion mark for the first time. We sold a record volume of products. Consolidated net income, before an extraordinary charge of $12.3 million, exceeded $100 million, also an all-time high. The extraordinary charge was in connection with a move to improve the future profitability of our milk and ice cream operations in the U. S., by closing certain unprofitable plants. In addition, the Sealtest Foods Division relocated its headquarters office from New York City to a company-owned facility in Philadelphia and re-structured its management organization to improve overall effectiveness.

During the year 1972, the food industry in the U. S. experienced not only the normal strong competition from within, but also was the focus of governmental and public concern over rising prices in the marketplace.

Conflicting, and sometimes erroneous, reports have seemed to obscure the economic realities and true price and cost picture under which the food industry and Kraftco have been operating. As stockholders of Kraftco with a vested interest in its future success, it is important that you are familiar with the factual record.

Under all phases of the government's Economic Stabilization Program, raw agricultural products were uncontrolled as to price.

We are permitted, under government pricing regulations, to increase immediately selling prices as a "pass through" of the direct cost increases we incur in the purchase of certain agricultural products including milk, cheese, vegetable oil and citrus. Other raw materials and operating expenses also increased, but price increases reflecting these "other cost" increases could not be placed in effect until they had been given prior approval by the Price Commission.

Although our payroll costs were within the guidelines established by the Wage Board, our "other costs" in the U. S., many of which were beyond our control, did increase substantially. As an example: repairs were up 16.6%; depreciation 7.7%; freight 8.5%; power, fuel and water 8.6%; and taxes other than Federal Income 7.8%. To offset these "other cost" increases and maintain profit margins, we continued a strong effort to improve productivity, to increase volume and to improve our product mix profitability. Despite these successful efforts, some price increases were necessary and attained. Our average net overall price increase in the U. S. for December 1972 was 2.2% over our August 1971 base period price. Of this increase, 2.1% related to the direct "pass through" of cost increases of certain agricultural products and .1% to "other cost" increases. This compares to the general increase in the U. S. Consumer Price Index of 4.2% for the period August 1971 to December 1972.

As in the past, we are continuing to support the President's Economic Stabilization Program; and although, as we enter 1973, the food industry remains under wage and price controls, we are optimistic about the future and our ability to fulfill both our corporate goals and our corporate responsibilities.

There were a number of significant management and Board changes during 1972.

On April 20, Gordon Edwards, then Chairman of the Board and Chief Executive Officer, retired from active management in accordance with Company policy. All of us—stockholders and employees alike—join in expressing our deep appreciation for his 45 years of distinguished service, as well as our admiration of the outstanding progress made by Kraftco under his inspiring leadership. We are fortunate that he continues to be associated with Kraftco as a Director.

Concurrent with Mr. Edwards' retirement, your President was elected Chairman of the Board and Chief Executive Officer of the Corporation.

In July, John M. Steiner, then President of Dominion Dairies Limited, a Kraftco subsidiary, became President of Sealtest Foods and a Vice President of Kraftco. Mr. Steiner joined the Sealtest Foods Division in 1938 and became associated with Dominion Dairies in 1965. He will also serve as Chairman of Dominion Dairies. He succeeds John R. Edwards who retired. Mr. Edwards joined Sealtest in 1945 and rose through the ranks, becoming President of the division in 1965.

On January 4, 1973, Arthur W. Woelfle became a Director and was named to fill the

newly created post of Vice Chairman. Mr. Woelfle had been serving the Company as Chairman and Managing Director of the Kraftco subsidiary, Kraft Foods Limited, in the United Kingdom. He joined Kraftco in 1955 when Bedford Products of Dunkirk, New York, with which he was associated as Vice President and Treasurer, was acquired. In his new post and as a member of Kraftco's Administrative, Operating and Executive Committees, he will carry a broad range of responsibilities for the general management of the Corporation.

At the Annual Meeting on April 20, 1972, Catherine B. Cleary, of Milwaukee, was elected a Director. Miss Cleary is President of the First Wisconsin Trust Company.

At the same meeting, M. Joseph Lambert, Senior Vice President and Chief Financial Officer, was elected to the Board.

In February 1973, Dr. Lloyd C. Elam was elected to membership on the Board. Dr. Elam has been associated with Meharry Medical College, Nashville, Tennessee, as Chairman of the Department of Psychiatry from 1961 until 1968, when he was elected President. Educated at Roosevelt University, the Medical School of the University of Washington at Seattle, and Billings Hospital of the University of Chicago, Dr. Elam has conducted investigations of the effects of nutrition on mental health, in addition to his practice and teaching. He is a member of the National Board of Medical Examiners, the National Council on Drug Abuse, the National Resources Advisory Committee, and the Advisory Committee to the National Academy of Sciences.

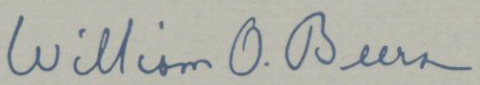
J. Huber Wetenhall, former Chairman of the Board and Chief Executive Officer, did not stand for re-election to the Board, in accordance with corporate policy on tenure and retirement.

It is with regret that we note the death, on July 1, 1972, of Henry W. Breyer, Jr., who had been a Director since 1934. Mr. Breyer was the former President of the Breyers Ice Cream Company, founded by his father, and now an important part of our Sealtest Foods Division.

Kraftco's achievements in 1972 could not have been realized without the loyalty and dedicated service of our more than 48,000 employees.

Management thanks the members of the Board for their unfailing help in 1972, and we are grateful to our stockholders for their continued support.

We are some weeks into 1973, a year which began with a welcome return to peace. In the many nations in which we have operations, we look forward to growth and continued success. We believe Kraftco will continue to meet the challenges of a dynamic marketplace and serve our customers with a growing number of new and improved products. This is our pledge to you, our stockholders.



William O. Beers
Chairman of the Board and President

March 9, 1973

Sales

On the strength of a record volume of products sold, annual worldwide sales exceeded $3 billion for the first time in 1972. This was the 18th consecutive year in which sales reached new highs. Total worldwide sales for the year were $3,196,789,000, an increase of $237,153,000, or 8% over sales of $2,959,636,000 in 1971. This sales increase included $26,531,000 resulting from revaluation of currencies in countries in which the Company carries on business. In addition, approximately $48 million of this increase was attributed to the fact that the Company's accounting year included 53 weeks in 1972 compared with 52 weeks in 1971. Sales outside the United States and Canada were $461,317,000, an increase of $63,361,000, or 15.9% over 1971.

The long-term upward trend in consumer demand for convenience foods also was reflected in 1972 results. Worldwide sales of manufactured dairy products and processed food products increased 12.6% and 6.5%, respectively. They continued to represent the largest portion of our sales, accounting for 43.7% and 35.4% of the total. Since 1962, sales of manufactured dairy products have increased 109% and processed foods 110.8%.

Fluid milk sales decreased 1.6%, and accounted for 12.4% of the total; sales of ice cream and frozen desserts increased 3.9%, and accounted for 5.5%.

Other product sales increased 13.8%, and contributed 3% to total sales.

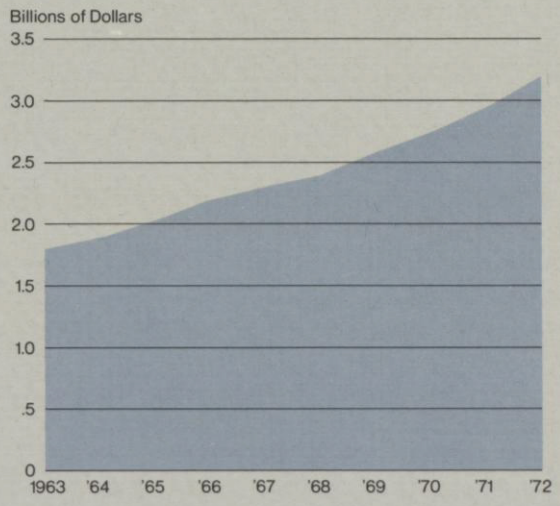
Earnings and Dividends

Consolidated net earnings in 1972 were $100,635,000, or $3.57 per share, before an extraordinary charge of $12.3 million. This was an increase of 10.2%, or $9,288,000 over the $91,347,000, or $3.25 per share achieved in 1971. The extraordinary charge which amounted to 44¢ per share as reported for the third quarter, in connection with the consolidation and closing of certain unprofitable U.S. milk and ice cream plants, reduced net earnings for the year to $88,335,000, or $3.13 per share.

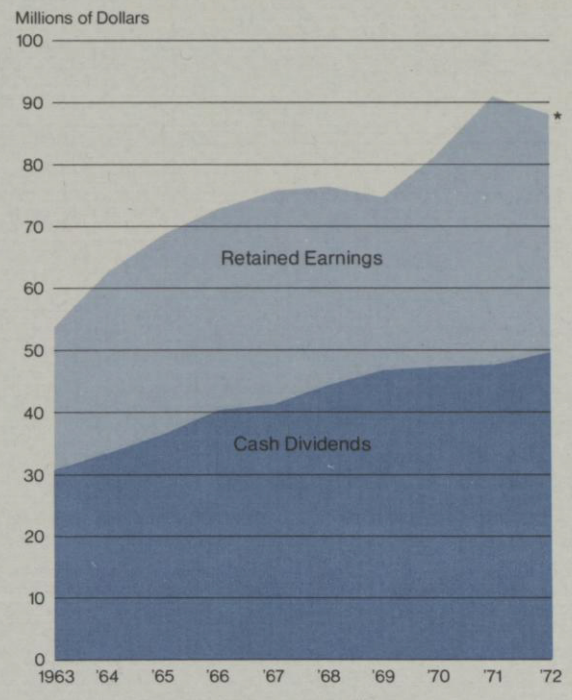
Assuming full conversion of the bonds issued by Kraftco International Capital Corporation, earnings per share after the extraordinary charge would be $3.10 for the year.

Included in these results was $3,600,000, or approximately 13¢ per share resulting from the United States investment tax credit compared to $1,300,000, or approximately 4¢ per share in 1971; and $585,000, or approximately 2¢ per

Ten Year Sales



Ten Year Earnings



*After extraordinary charge of $12.3 million.

share resulting from foreign currency translations compared to $2,456,000, or approximately 9¢ per share in 1971.

Consolidated earnings before the extraordinary charge and Federal and foreign taxes on income in 1972 were $187,529,000, or 5.1% higher than the $178,512,000 for the previous year.

Although total earnings increased before the extraordinary charge, there was a considerable decline in contribution to profit by United States milk and ice cream operations.

As we reported in the third quarter, a decision was made to close certain milk and ice cream plants in a move to improve the future profitability of our U.S. milk and ice cream operations. This decision will enable the Company to concentrate its marketing and promotional efforts behind those products and in those areas where consistent profitability can be maintained. Further charges of this nature are not anticipated.

Operations outside of the U.S. and Canada recorded pre-tax profits of $30,329,000, an increase of $7,126,000, or 30.7% over 1971. After-tax profits amounted to $16,950,000, an increase of $4,948,000, or 41.2% over 1971. Operations in the United Kingdom, Australia and Venezuela were among those showing good gains. We are continuing to invest in the Italian market. Although there has been an improvement, Italian operations continue to have an adverse effect on overall profits.

In the U.S., in the first half of 1972, uncertainty existed in the marketplace as to the economy in general and Phase II controls in particular. This, coupled with intense competition, hampered our ability to raise prices to offset increased costs. We also experienced a slowing in the rate of growth in volume of products sold. In addition, decreased volume in milk and ice cream also had an adverse effect on results. However, we recorded good gains from our non-food operations.

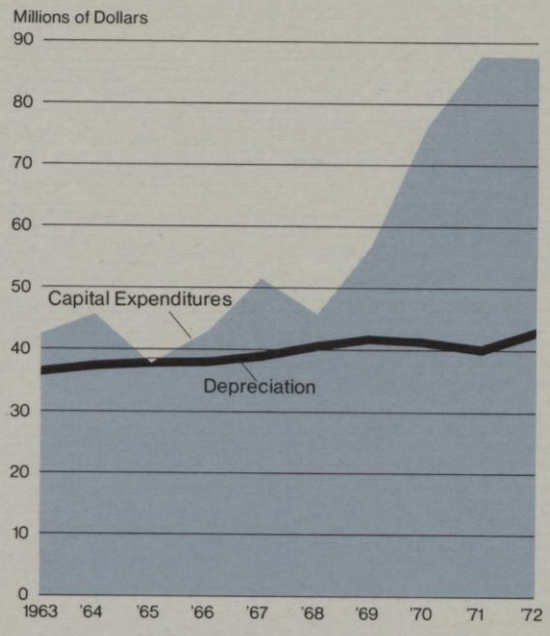
The second half of the year showed improvement in earnings due to volume increases in manufactured dairy products and processed foods. In addition, continuing efforts to improve productivity and increase volume, as a means of offsetting rising costs, improved gross margins as the year drew to a close.

Total taxes in 1972 on earnings, real estate, equipment, inventories and payrolls were $133,025,000, or $4.72 per share, compared with $129,009,000, or $4.59 per share in 1971. A detailed breakdown is shown in the following table:

	1972		1971	
	Amount	**Per Share**	Amount	Per Share
Income Taxes:				
Federal (U.S. and Canada) . .	**$ 73,515,000***	**$2.61**	$ 75,964,000	$2.70
International.	**13,379,000**	**.47**	11,201,000	.40
State and Local Taxes (U.S.)	**19,873,000**	**.71**	20,061,000	.71
Payroll Taxes .	**16,761,000**	**.59**	13,893,000	.49
Other Taxes . .	**9,497,000**	**.34**	7,890,000	.29
	$133,025,000*	**$4.72**	$129,009,000	$4.59

*Before tax benefit on extraordinary charge.

Ten Year Capital Expenditures and Depreciation



Ten Year Sales by Class of Products

as a percent of total net sales

	Manufactured Dairy Products	Processed Food Products	Fluid Milk Products	Ice Cream & Frozen Desserts	Other Products
1972	43.7%	35.4%	12.4%	5.5%	3.0%
1971	41.9	35.9	13.6	5.8	2.8
1970	40.7	35.1	15.5	6.0	2.7
1969	39.3	33.4	18.2	6.5	2.6
1968	38.1	33.2	19.4	7.1	2.2
1967	38.4	32.5	19.7	7.3	2.1
1966	38.4	32.2	19.6	7.7	2.1
1965	37.4	31.9	20.0	8.5	2.2
1964	37.1	30.8	21.1	8.9	2.1
1963	36.7	29.9	22.1	9.3	2.0

The cost of our products, including raw materials, packaging and processing expenses was 76.9% of sales in 1972 compared with 76.7% in 1971. Delivery, selling and administrative expenses were 17.2% of sales in 1972 and in 1971. Included in this amount is the cost of advertising, which was 2.5% of sales in 1972, compared with 2.4% in 1971.

Dividends during 1972 totaled $49,741,000, an increase of $2,099,000 over 1971. Dividends per share were $1.768 in 1972 and $1.70 in 1971.

Acquisition

On February 2, 1973, Kraftco entered into an agreement with Universal Packaging Corporation under which Kraftco will acquire for cash all of the stock of Universal Packaging. The company manufactures paper containers for the food industry. Sales for the fiscal year ended September 30, 1972, amounted to over $15 million.

Purchase of Treasury Stock

During 1972, Kraftco's Board of Directors established a program to purchase treasury shares for conversion of the 7½% Convertible Bearer Bonds and for general corporate purposes. The authorization covers the purchase of up to one million shares. In 1972, 121,200 shares of common stock were purchased.

Capital Expenditures

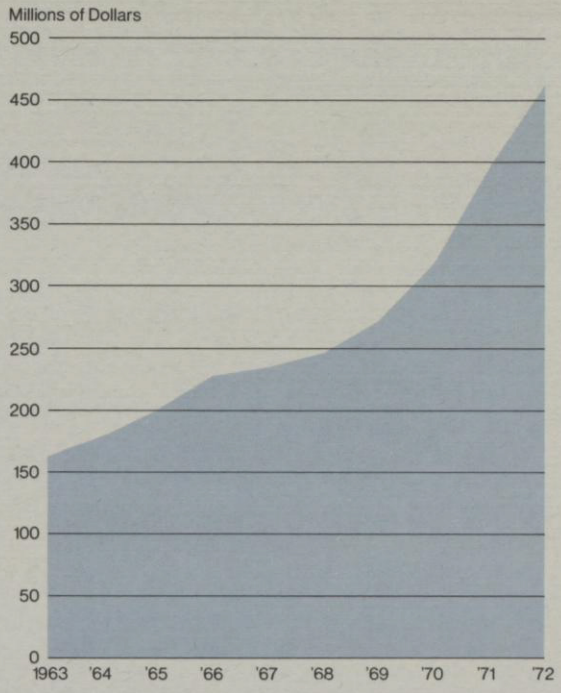
In 1972, capital expenditures were $87 million, mostly for new facilities to increase production of manufactured dairy and processed food products. Included were major new facilities at Lehigh Valley, Pennsylvania; Champaign, Illinois; Mattoon, Illinois; and Fallingbostel, Germany. In 1973, to meet the demands of continued growth, we expect capital expenditures will be approximately $85 million. Depreciation charges in 1972 were $43,727,000. Estimated depreciation charges for 1973 are $48,000,000.

Legal Matters

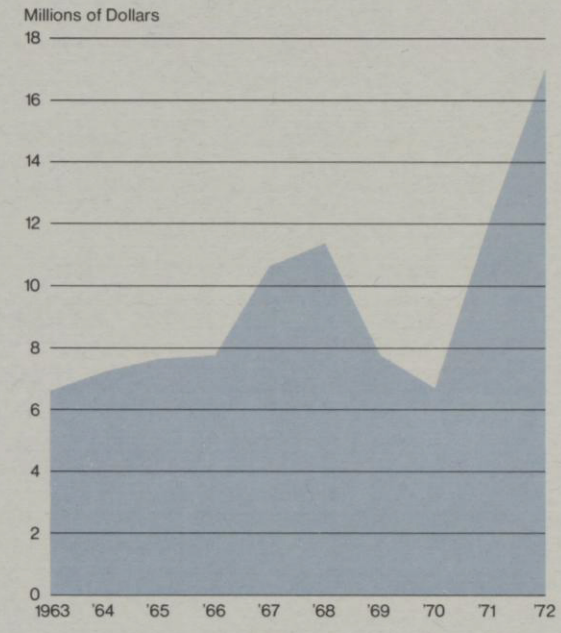
Several treble damage suits based on alleged violations of the antitrust laws are pending against the Company. It is not expected that any recoveries in these suits will materially affect the Company's financial position or operations.

The Company is also a defendant in actions of a character usual for companies operating similar businesses. In addition, several governmental agencies have investigations being conducted by them. See also the comments on Contingent Liabilities in the Notes to Consolidated Financial Statements.

Ten Year International Sales (Excl. Canada)



Ten Year International Earnings (Excl. Canada)



Consolidated Balance Sheets

Assets

	December 30, 1972	December 25, 1971
Current Assets:		
Cash and temporary investments (See note)	**$ 68,011,789**	$ 84,989,923
Notes and accounts receivable, less allowance for losses ($6,347,142 in 1972 and $6,201,059 in 1971)	**207,592,170**	192,726,721
Inventories, at lower of average cost or market—		
Products and materials	**432,621,187**	381,215,743
Supplies	**31,647,900**	29,656,745
Total current assets	**$ 739,873,046**	$ 688,589,132
Property, Plant & Equipment, at cost:		
Land	**$ 26,057,340**	$ 25,620,973
Buildings	**325,744,293**	301,397,537
Machinery and equipment	**540,760,388**	508,945,833
	$ 892,562,021	$ 835,964,343
Less—Accumulated depreciation (See note)	**433,086,764**	405,638,431
	$ 459,475,257	$ 430,325,912
Other Assets:		
Miscellaneous investments and receivables	**$ 7,339,825**	$ 8,789,013
Prepaid and deferred items	**11,185,888**	8,767,143
Intangibles (See note)	**27,319,024**	27,319,302
	$ 45,844,737	$ 44,875,458
	$1,245,193,040	$1,163,790,502

(See Notes to Consolidated Financial Statements, pages 10 and 11.)

Liabilities and Stockholders' Equity

	December 30, 1972	December 25, 1971
Current Liabilities:		
Accounts payable and accrued liabilities	**$ 231,401,252**	$ 211,093,500
Short-term loans of International Subsidiaries	**49,443,819**	25,621,817
Federal and foreign taxes on income	**28,974,300**	29,662,572
Current portion of long-term debt, less amounts provided for payment ($2,450,000 in 1972 and 1971)	**4,154,301**	892,500
Total current liabilities	**$ 313,973,672**	$ 267,270,389
Long-Term Debt (See note)	**$ 135,465,770**	$ 140,325,071
Other Liabilities:		
Deferred taxes on income	**$ 17,504,218**	$ 15,060,854
Reserves for insurance, etc.	**7,444,683**	6,751,656
Minority interest in subsidiary	**2,060,387**	1,991,388
	$ 27,009,288	$ 23,803,898
Contingent Liabilities (See note)		
Stockholders' Equity (See note):		
Preferred stock, $1.00 par value—authorized 10,000,000 shares; Issued—None	**$ —**	$ —
Common stock, $2.50 par value—authorized 60,000,000 shares	**73,584,767**	73,534,580
Capital surplus	**49,543,434**	49,536,375
Retained earnings (at December 30, 1972, $181,500,000 restricted as to payment of dividends under indentures)	**703,142,182**	664,548,151
	$ 826,270,383	$ 787,619,106
Less—Treasury stock, at cost	**57,526,073**	55,227,962
Stockholders' equity	**$ 768,744,310**	$ 732,391,144
	$1,245,193,040	$1,163,790,502

(See Notes to Consolidated Financial Statements, pages 10 and 11.)

Consolidated Statements of Income

Kraftco Corporation . . . and Subsidiaries

	53 Weeks Ended December 30, 1972	52 Weeks Ended December 25, 1971
Net sales	**$3,196,789,310**	$2,959,635,732
Costs and expenses:		
Cost of products	**$2,457,717,652**	$2,269,491,932
Delivery, selling and administrative expense	**550,303,905**	510,071,903
Interest on long-term debt	**8,387,967**	7,249,709
Other income and charges, net	**(7,149,705)**	(5,690,080)
Total	**$3,009,259,819**	$2,781,123,464
Income before Federal and foreign taxes and extraordinary charge	**$ 187,529,491**	$ 178,512,268
Provision for Federal and foreign taxes on income	**86,894,000**	87,165,000
Income before extraordinary charge	**$ 100,635,491**	$ 91,347,268
Extraordinary charge—Provision for losses on plant closings, less Federal income tax benefit of $10,200,000 (See note)	**12,300,000**	—
Net income for the year	**$ 88,335,491**	$ 91,347,268
Earnings per common share:		
Per common and common equivalent share— Income before extraordinary charge	**$ 3.57**	$ 3.25
Extraordinary charge	**.44**	—
Net income	**$ 3.13**	$ 3.25
Per common share assuming full conversion of the 7½% Convertible Bearer Bonds due 1985— Income before extraordinary charge	**$ 3.53**	$ 3.21
Extraordinary charge	**.43**	—
Net income	**$ 3.10**	$ 3.21
Average number of Common and Common Equivalent Shares	**28,190,243**	28,093,809

Consolidated Statements of Retained Earnings

	53 Weeks Ended December 30, 1972	52 Weeks Ended December 25, 1971
Balance at beginning of year	**$ 664,548,151**	$ 620,842,595
Net income for the year	**88,335,491**	91,347,268
	$ 752,883,642	$ 712,189,863
Dividends on common stock ($1.768 per share in 1972 and $1.70 in 1971)	**49,741,460**	47,641,712
Balance at end of year	**$ 703,142,182**	$ 664,548,151

(See Notes to Consolidated Financial Statements, pages 10 and 11.)

Consolidated Statements of Changes in Financial Position

	53 Weeks Ended December 30, 1972	52 Weeks Ended December 25, 1971
Working Capital Provided By:		
Operations—		
Income before extraordinary charge	**$ 100,635,491**	$ 91,347,268
Non-cash charge—Depreciation	**43,727,246**	40,732,653
	$ 144,362,737	$ 132,079,921
Extraordinary charge (portion of $12,300,000 provision for losses on plant closings requiring use of working capital)	**(5,904,825)**	—
Issuance of 6⅞% Debentures due 1996	**—**	50,000,000
Issuance of mortgage payable due 1973/93	**—**	5,000,000
Sale of common stock under options	**3,452,230**	2,677,199
Other, net	**6,720,345**	4,033,533
	$ 148,630,487	$ 193,790,653
Working Capital Used For:		
Dividends paid on common stock	**$ 49,741,460**	$ 47,641,712
Property, plant and equipment additions, net	**83,575,550**	82,021,227
Decrease in long-term debt	**5,039,301**	1,237,500
Treasury stock acquired	**5,693,545**	—
	$ 144,049,856	$ 130,900,439
Increase in Working Capital	**$ 4,580,631**	$ 62,890,214
Changes in Working Capital Represented By:		
Cash and temporary investments	**$ (16,978,134)**	$ 33,336,657
Notes and accounts receivable, net	**14,865,449**	7,954,387
Inventories	**53,396,599**	47,842,318
Accounts payable and accrued liabilities	**(20,307,752)**	(18,536,617)
Short-term loans of International Subsidiaries	**(23,822,002)**	1,819,078
Federal and foreign taxes on income	**688,272**	(9,748,109)
Current portion of long-term debt	**(3,261,801)**	222,500
Increase in Working Capital	**$ 4,580,631**	$ 62,890,214

(See Notes to Consolidated Financial Statements, pages 10 and 11.)

Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of all subsidiaries. The voting stock of all consolidated subsidiaries is wholly owned, except for a minority interest in a Canadian subsidiary. The investment in 50% owned companies is recorded on the equity method. All significant intercompany items have been eliminated.

Translation of Foreign Currencies—In the consolidated balance sheets, assets and liabilities of international subsidiaries are translated at the rates of exchange prevailing on the balance sheet dates, except for fixed assets and intangibles which are translated generally at the rates prevailing at the time such assets were acquired. Income and expense accounts are translated at the average of rates of exchange prevailing during the years. The effect of such fluctuations in exchange rates is reflected in net income.

Depreciation—Depreciation charges are generally computed on a straight-line basis over estimated useful lives of buildings and estimated composite group lives of machinery and equipment.

Intangibles—Intangibles represent the excess of the purchase price paid over the net book values of the tangible assets of certain businesses acquired in transactions initiated prior to November 1, 1970. The Company does not now intend to amortize items carried in this account.

Investment Tax Credit—Beginning in 1964, investment tax credits have been taken directly into income as a reduction of the provision for Federal income taxes. Investment tax credits were $3,600,000 for 1972 and $1,300,000 for 1971.

Research and Development Costs—Research and development costs are charged to expense as incurred. These costs approximated $8,500,000 for 1972 and $8,300,000 for 1971.

Advertising—Advertising costs are generally charged to expense during the year in which they are incurred. These costs were $79,973,000 in 1972 and $71,871,000 in 1971.

Undistributed Earnings of International Subsidiaries—Federal income taxes are provided on the portion of each international subsidiary's earnings which is not deemed to be permanently invested in the subsidiary. At December 30, 1972, approximately $81,500,000 of such undistributed earnings were considered to be permanently invested. In the event such earnings were distributed, the Company would have available tax credits which would substantially offset any Federal income taxes due.

Employees' Stock Options

Under the Employees' Stock Option Plans 189,160 and 342,475 shares of the Company's common stock at December 30, 1972 and December 25, 1971, respectively, were available for future grants to officers and other key employees. During 1972, options were granted to purchase 164,250 shares at $43.25 per share and 1,500 shares at $42.25 per share. Options to purchase 103,039 shares were exercised at prices ranging from $30.25 to $41.65 per share. At December 30, 1972, 1,570 employees (including officers) held options to purchase 510,837 shares at prices ranging from $30.25 to $43.25 per share. At that date, options for 235,167 shares were exercisable.

Cash

At December 30, 1972, $25,090,000 were held in short-term bank deposits as pledges for bank loans by international subsidiaries, and $3,354,000 in cash was deposited with a German bank to comply with German Government regulations relating to borrowings of the German subsidiary.

Long-Term Debt

All of the issues of debentures and debenture stock, other than the 7½% Convertible Bearer Bonds, have sinking fund or prepayment requirements. The amounts shown below as outstanding at December 30, 1972, exclude maturities and sinking fund requirements included in current liabilities, and $1,152,000 of debentures held in treasury in excess of current sinking fund requirements.

	December 30, 1972	December 25, 1971
Kraftco Corporation		
3⅛% Debentures due 1976	**$ 14,393,000**	$ 14,894,000
4⅜% Debentures due 1992	**30,105,000**	30,204,000
6⅞% Debentures due 1996	**50,000,000**	50,000,000
2% Mortgage—Pennsylvania Industrial Development Authority due 1973/93	**4,897,810**	5,000,000
Bank Loans due 1973/74 (Eurodollars)	**169,960**	3,987,071
Kraftco International Capital Corporation		
7½% Convertible Bearer Bonds due 1985 (Deutsche Marks) (convertible into 649,350 shares of common stock of Kraftco Corporation)	**31,200,000**	30,600,000
English Subsidiary		
Debenture Stock due 1975	**4,700,000**	5,355,000
Venezuelan Subsidiary		
Bank Loan due 1973	**—**	285,000
	$135,465,770	$140,325,071

Contingent Liabilities

Substantial amounts are involved in various legal proceedings in which the Company is a defendant. It is not feasible to predict or determine the outcome of these proceedings or the ultimate liabilities, if any, which might result, but it is believed that the outcome would not materially affect the Company's consolidated financial position or operations.

Company Pension Plans

The Company and its subsidiaries have several pension plans. It is the Company's general policy to provide and fund current service costs and interest on unfunded past service costs annually and, beginning in 1971, to amortize past service costs over 40 years. This change did not have a material effect on total pension costs. At January 1, 1972, employees' vested benefits under these plans were fully funded. The Company also contributes to joint industry and union plans. Substantially all employees are covered under one or more of the above plans. Total pension costs approximated $19,525,000 in 1972 and $18,000,000 in 1971.

Extraordinary Charge

This represents known and anticipated costs in connection with the closing of certain U. S. milk and ice cream plants, including estimated losses on disposition of the properties, severance pay and other related expenses amounting to $12,300,000 net of related current tax benefits of $5,949,000 and deferred tax benefits of $4,251,000. The provision for losses on disposition of the properties amounting to $10,567,000 is included in accumulated depreciation.

Capital Transactions

	Number of Shares		Amount		
	Common Stock	Treasury Stock	Common Stock	Treasury Stock	Capital Surplus
December 25, 1971	29,413,832	1,349,986	$73,534,580	$55,227,962	$49,536,375
Treasury stock acquired	—	121,200	—	5,693,545	—
Used for—					
Management Incentive Compensation Plan	—	11	—	450	—
Stock Options exercised	20,075	82,964	50,187	3,394,984	7,059
December 30, 1972	29,433,907	1,388,211	$73,584,767	$57,526,073	$49,543,434

International Subsidiaries (other than Canadian)

Condensed Statements of Income

	53 Weeks Ended December 30, 1972	52 Weeks Ended December 25, 1971
Net sales	**$ 461,316,553**	$ 397,955,149
Costs and expenses:		
Cost of products	**$ 356,141,844**	$ 310,184,823
Delivery, selling and administrative expense	**73,605,618**	62,888,952
Interest on long-term debt	**340,253**	535,728
Gain on translation of currencies (balance sheet items)	**(1,189,661)**	(1,848,720)
Other income and charges, net	**2,089,366**	2,991,110
Total	**$ 430,987,420**	$ 374,751,893
Income before taxes	**$ 30,329,133**	$ 23,203,256
Provision for taxes on income	**13,378,638**	11,201,081
Net income for the year	**$ 16,950,495**	$ 12,002,175

Condensed Statements of Financial Position

	December 30, 1972	December 25, 1971
Cash and temporary investments	**$ 10,032,743**	$ 10,614,565
Notes and accounts receivable	**39,694,079**	37,435,539
Inventories	**96,828,965**	74,903,228
Total current assets	**$ 146,555,787**	$ 122,953,332
Current liabilities	**114,376,509**	77,417,366
Working capital	**$ 32,179,278**	$ 45,535,966
Property, plant and equipment, less accumulated depreciation	**64,044,822**	53,377,711
Other assets	**2,694,558**	3,030,733
	$ 98,918,658	$ 101,944,410
Less—Long-term debt and reserves	**11,092,929**	9,877,600
Net tangible assets	**$ 87,825,729**	$ 92,066,810

The above accounts are included in the Consolidated Financial Statements.

Auditors' Report

To the Board of Directors and Stockholders of Kraftco Corporation:

We have examined the consolidated balance sheets of Kraftco Corporation (a Delaware corporation) and Subsidiaries as of December 30, 1972 and December 25, 1971, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. We also have examined the condensed statements of financial position and income of International Subsidiaries as of the above dates and periods. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Kraftco Corporation and Subsidiaries as of December 30, 1972 and December 25, 1971, and the results of their operations and changes in financial position for the years then ended, and the accompanying condensed statements of International Subsidiaries summarize fairly the financial position and results of operations of such Subsidiaries for the above dates and periods, all in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Chicago, Illinois,
February 22, 1973.

Ten Year Summary

(Dollar amounts in thousands, except per share figures)

	1972	1971	1970
Income and Dividends:			
Net sales	**$3,196,789**	$2,959,636	$2,751,129
Income before Federal and foreign taxes on income	**187,529***	178,512	163,337
Net income after taxes	**88,335****	91,347	82,006
Dividends	**49,741**	47,642	47,507
Per share of common stock:			
Net income after taxes	**$3.13****	$3.25	$2.93
Dividends	**$1.768**	$1.70	$1.70
Financial Position:			
Cash and temporary investments	**$ 68,012**	$ 84,990	$ 51,653
Notes and accounts receivable, net	**207,592**	192,727	184,773
Inventories	**464,269**	410,872	363,030
Total current assets	**739,873**	688,589	599,456
Total current liabilities	**313,974**	267,270	241,027
Working capital	**425,899**	421,319	358,429
Property, plant and equipment, net	**459,475**	430,326	389,037
Total assets	**1,245,193**	1,163,791	1,031,365
Long-term debt	**135,466**	140,325	82,875
Stockholders' equity	**768,744**	732,391	685,055
Per share of common stock	**$27.41**	$26.10	$24.50
Statistical Information:			
Capital expenditures	**$ 87,139**	$ 87,356	$ 75,526
Depreciation charged during the year	**43,727**	40,733	42,029
Total taxes—income, property and other	**133,025*****	129,009	118,438
Per share of common stock	**$4.72*****	$4.59	$4.23
Interest on long-term debt	**8,388**	7,250	4,340
Payroll	**431,349**	392,997	368,038
Average number of employees	**48,948**	48,091	48,179
Number of stockholders at year end	**69,999**	71,461	71,538
Number of shares of common stock outstanding at year end (in thousands)	**28,046**	28,064	27,965

*Income before extraordinary charge of $22,500,000.

**Income before extraordinary charge was $100,635,000 (per share $3.57) for 1972.

***Before tax benefit on extraordinary charge.

Assuming full conversion of the 7½% Convertible Bearer Bonds, per share would be $3.10 in 1972, $3.21 in 1971 and $2.92 in 1970.

Per share figures for all years prior to 1966 have been adjusted for the two-for-one stock split 1966.

1969	1968	1967	1966	1965	1964	1963
$2,580,905	$2,428,106	$2,318,587	$2,251,725	$2,017,280	$1,919,945	$1,838,971
156,346	151,576	140,950	135,476	129,057	123,951	110,444
75,625	76,162	76,120	73,461	69,902	63,784	54,018
47,077	44,886	41,641	40,413	37,664	34,729	31,703
$2.69	$2.67	$2.65	$2.55	$2.41	$2.20	$1.87
$1.675	$1.575	$1.45	$1.40	$1.30	$1.20	$1.10
$ 55,511	$ 92,913	$ 84,701	$ 69,466	$ 117,082	$ 113,846	$ 93,341
178,573	159,044	140,469	134,830	121,815	112,070	105,340
341,083	310,453	310,831	310,832	250,928	241,754	244,738
575,167	562,410	536,001	515,128	489,825	467,670	443,419
249,308	202,750	190,449	189,524	180,824	171,055	161,021
325,859	359,660	345,552	325,604	309,001	296,615	282,398
359,899	346,691	343,650	334,347	330,866	332,136	329,440
977,684	948,145	915,344	884,518	852,652	824,629	796,721
57,377	87,728	85,145	87,732	89,322	95,638	109,071
649,119	638,697	622,280	592,680	566,239	538,638	507,107
$23.25	$22.41	$21.66	$20.58	$19.56	$18.58	$17.56
$ 56,511	$ 45,799	$ 51,600	$ 42,481	$ 37,767	$ 45,450	$ 42,667
42,305	41,206	39,980	38,481	38,222	37,897	36,955
114,096	105,876	92,425	89,072	82,636	83,299	79,798
$4.06	$3.71	$3.21	$3.09	$2.85	$2.87	$2.76
3,722	3,590	3,485	3,552	3,483	3,759	4,129
346,973	323,257	309,905	301,407	280,983	274,546	271,908
48,160	47,007	47,060	46,525	45,157	45,172	46,432
71,584	71,702	72,352	71,240	68,762	69,073	68,682
27,921	28,339	28,672	28,801	28,936	28,988	28,870

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John L. Weinberg

Counsel

Sullivan & Cromwell

Transfer Agents

Manufacturers Hanover Trust Company
4 New York Plaza, New York, New York 10015

National Boulevard Bank of Chicago
400 North Michigan Avenue, Chicago, Illinois 60611

Bank of America N.T. & S.A.
55 Hawthorne Street, San Francisco, California 94120

The Royal Trust Company
630 Dorchester Boulevard West, Montreal 110, P.Q., Canada
Royal Trust Tower, Toronto-Dominion Centre,
Toronto 116, Ont., Canada

*Commonwealth Trading Bank of Australia
233 Collins Street, Melbourne, Victoria, Australia

Registrars

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Continental Illinois National Bank and
Trust Company of Chicago, Chicago
Wells Fargo Bank, N.A., San Francisco
Montreal Trust Company, Montreal and Toronto
*The Wales Nominees (Vic.) Pty. Limited, Melbourne

Stock Exchanges

New York, Chicago, San Francisco, Montreal,
Toronto, *Adelaide, *Brisbane, *Hobart,
*Melbourne, *Perth, *Sydney, London, Brussels,
Antwerp, Frankfurt/Main, Basle, Berne, Geneva,
Lausanne, Zurich. U.S. Trading Symbol: KRA.

For shares represented by Australian certificates only.

Auditors

Arthur Andersen & Co.

Principal Divisions and Operations

United States Operations

Kraftco conducts its business in the United States through five divisions.

Kraft Foods Division originated in 1903 in Chicago, and became part of Kraftco in 1930. This division makes and markets hundreds of food products throughout the United States. Kraft's history is marked by the innovation of important advances in the processed packaged food products field, such as processed cheese, the first successful processed packaged cheese product with good keeping qualities and uniformity of flavor and texture, and *Miracle Whip* Salad Dressing. Besides its long-popular cheese and salad products, Kraft Foods has steadily diversified its product lines over the years and today markets a wide range of foods such as: jellies and preserves, margarine, confections, dry dinner mixes, cooking oil and shortening, and fruit salads. In addition to products sold in retail outlets, Kraft Foods does an extensive business with members of the food service industry, such as restaurants and cafeterias, and also provides many products for use as ingredients in the products made by other companies.

Sealtest Foods Division, headquartered in Philadelphia, resulted from a 1958 consolidation of the Company's many milk and ice cream operations, several dating back to the 1800's. Today, Sealtest is one of the nation's leading manufacturers and marketers of dairy foods distributing an extensive product line including ice cream, fluid milk, cream, cottage cheese, yogurt and milk by-products, butter and fruit juices. Sealtest's distribution area extends chiefly from the Atlantic Coast through the Midwest. The division markets most of its products under the widely advertised *Sealtest* brand. In addition, ice cream is also sold under the long-established *Breyers* trademark. A line of low-fat milk, ice milk and dairy specialty products also is marketed under the *Light n' Lively* trademark.

Breakstone Sugar Creek Foods Division, whose headquarters is in New York City, was created in 1968, through the consolidation of the operations of the former Breakstone Foods and Sugar Creek Foods Divisions. This was done to strengthen marketing effectiveness of both divisions and broaden the geographical area of distribution. Breakstone joined Kraftco Corporation in 1928. Beginning in 1882 with the sale of its dairy products in New York City, Breakstone now distributes throughout the Eastern Seaboard of the United States, including Puerto Rico, and in the Fort Worth, Dallas, Houston, and Indianapolis market areas. Cottage cheese, sour cream, cream cheese, yogurt, other cultured milk products and refrigerated puddings are marketed under the *Breakstone* and *Temp-Tee* brands. Sugar Creek operations, which began in 1910 in Watseka, Ill., became part of Kraftco in 1929. Its products include quality butter, powdered milk and ice cream mixes and flavor bases for soft drinks and syrups. Market areas are principally in the Midwest and Southwest.

Kra-Pak Division, created in 1970, consists of HumKo Products, Metro Containers and Sheffield Chemical operations. HumKo Products, headquartered in Memphis, was formed in 1930 and joined Kraftco in 1952. HumKo refines and markets a variety of edible oils and shortenings which are distributed both for consumer use and for use by food processors. HumKo also produces and sells a line of high-quality fatty acids and chemicals which are used by many leading industries throughout the United States. It supervises large modern refineries in Memphis, Tenn., Champaign, Ill. and Buena Park, Calif.

Metro Containers, headquartered in Jersey City, N.J., a part of Kraftco since 1956, makes glass containers and other packaging materials for use in the food, beverage, drug, chemical, cosmetics, household products, and other industries. It supervises operations in Jersey City and Carteret, N.J., Dolton and Chicago, Ill., Washington and Mt. Carmel, Pa. and Mt. Royal, Quebec.

Sheffield Chemical, headquartered in Union, N.J., is a processor and distributor of food bases and pharmaceutical chemicals for industrial users throughout the United States.

Research and Development Division is responsible for coordinating Kraftco's applied and fundamental research. Located in Glenview, Ill., the Research Center, which is one of the largest and best equipped facilities in the food industry, is competently staffed with several hundred skilled scientists including chemists, nutritionists, engineers and technical aides. Research and Development also operates the Company's Research Farm in Danville, Ill., which conducts feeding experiments with livestock. Kraftco's research and development effort began in 1928, and today the Research and Development Division works with the Company's operating divisions in the product innovation and product improvement effort.

Canadian Operations

The Kraft Foods Division supervises two Canadian subsidiaries: Kraft Foods Limited, which manufactures and distributes processed food products and manufactured dairy products under substantially the same trademarks used in the United States; and Vancouver Fancy Sausage Co. Ltd., which manufactures and distributes specialty meat products. The Sealtest Foods Division supervises another Canadian subsidiary, Dominion Dairies Limited, which produces and distributes fluid milk products, various manufactured dairy products and ice cream and frozen desserts in the provinces of Ontario and Quebec, principally under the trademark *Sealtest*.

International Operations

Operations in Australia, Belgium, Britain, Denmark, Germany, Ireland, Italy, Mexico, New Zealand, Panama, Philippines, Spain, Sweden and Venezuela produce and distribute processed food products and manufactured dairy products under the *Kraft* trademark. These subsidiaries are supervised by the Kraft Foods Division. The MK Cheese Co., Ltd., jointly owned by Kraftco and Morinaga Milk Industry Co., Ltd., produces processed cheese products in Japan. Operations in Manchester, England and Baudour, Belgium are supervised by the Kra-Pak Division.

Kraftco Corporation
KRAFTCO COURT, GLENVIEW, ILLINOIS 60025

Kraft Foods Division
Sealtest Foods Division
Breakstone Sugar Creek Foods Division
Kra-Pak Division
Research and Development Division

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